



THE CITY OF SAN DIEGO  
M E M O R A N D U M

DATE: September 8, 2009

TO: Honorable Councilmember Carl DeMaio

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Fiscal Impact of the Court Ruling on the City's Rental Tax Processing Fee

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Your memorandum of August 20, 2009 requests information on the fiscal impact of the Court's decision regarding the rental tax processing fee on the fiscal year 2010 and future years' budgets.

**Rental Unit Business Tax Processing Fee**

The City has stopped collecting the processing fee for rental tax. The fiscal impact of not assessing the Rental Unit Business Tax processing fee equates to approximately \$1.2 million in unrealized fee revenue each fiscal year. The City Attorney's Office is of the opinion that there is a one year statute of limitations on the repayment of the processing fee; in that case, the maximum refund would be approximately \$1.1 million. The following lists the revenue to the City each year the rental tax processing fee was collected:

FY05 Actual Revenue Collected:	\$ 1,499,510 (first year fee assessed)
FY06 Actual Revenue Collected:	\$ 1,703,339
FY07 Actual Revenue Collected:	\$ 1,134,518
FY08 Actual Revenue Collected:	\$ 1,153,493
FY09 Actual Revenue Collected:	\$ 1,123,246
FY10 Actual Revenue Collected:	\$ 31,811

The City included \$1.3 million in the FY2010 Annual Budget for rental tax processing fees that the City will not collect.

**Business Tax Processing Fee**

The City of San Diego has suspended collection of the business tax processing fee. The City Attorney's Office is currently reviewing this processing fee. The processing fee for business tax recovers the costs incurred by the business tax program for collecting regulatory data. This data supports several important regulatory functions: fire inspections, police permits and zoning use clearances. The City has realized approximately \$1.5 million in annual revenue from the business tax processing fee. The FY 2010 Annual Budget includes \$2.1 million in processing fee revenue for business tax.

Since processing fee revenue is included in the FY2010 revenue budget, we will include the loss of this revenue and any estimated repayments for the rental tax processing fee (depending on the court directives) in the FY 2010 mid-year budget report. Budget adjustments may be needed to rebalance the budget due to the decrease in revenues and a possible increase in expenditures for refunds.

Please contact me if you have additional questions.

cc: Jay M. Goldstone, Chief Operating Officer  
Honorable City Councilmembers  
Andrea Tevlin, Independent Budget Analyst  
Gail Granewich, City Treasurer  
Nader Tirandazi, Financial Management Department Director